VZCZCXRO3988
RR RUEHCHI RUEHDT RUEHHM RUEHNH
DE RUEHKL #1548/01 2920942
ZNR UUUUU ZZH
R 190942Z OCT 07
FM AMEMBASSY KUALA LUMPUR
TO RUEHC/SECSTATE WASHDC 0133
INFO RUCNASE/ASEAN MEMBER COLLECTIVE
RUCPDOC/DEPT OF COMMERCE WASHDC
RUEHRC/USDA FAS WASHDC

UNCLAS SECTION 01 OF 04 KUALA LUMPUR 001548

SIPDIS

SIPDIS

USITC FOR L.M. SCHLITT
STATE PASS USTR FOR WEISEL AND BELL

E.O. 12958: N/A
TAGS: ECON ETRD EAGR TBIO MY
SUBJECT: MALAYSIA BIOFUELS: INFORMATION ON INDUSTRIAL BIOTECHNOLOGY FOR USITC

REF: STATE 133131

¶1. Summary: The Malaysian government strongly supports the development of the biofuels industry, using the country's large and growing palm oil production as feedstock. The recent passage of the Biofuel Industry Act will facilitate the industry's continued expansion, though the industry has benefited from years of incentives already. Retail sales of biofuel in Malaysia have not yet been introduced since they cannot compete against government-subsidized petroleum-based fuels. Seven biodiesel plants currently are in operation in Malaysia with total capacity of 370,000 tons, though the current high prices for feedstock will likely result in actual biodiesel output of 280,000 tons in 2007. Capacity should expand to about 700,000 tons in 2008 with the expected completion of six more plants. End summary.

Policies supporting production and use of biofuels
---------- -----

¶2. Malaysia, with its large and growing palm oil industry, has the potential to play a major role in the world biofuel market. Malaysia is currently the world's number two producer and top exporter of palm oil. Oil palm has the highest oil yield per hectare of all vegetable oil feedstocks, seven times greater than that of soybeans and three times that of rapeseed.

¶3. Processed liquid palm oil (PLPO) can be used directly to power normal diesel engines or may be blended with petroleum diesel. Palm oil can also be converted to methyl esters (biodiesel) through a process called transesterification. This process combines refined palm oil, methanol, and a catalyst to produce the methyl esters. These methyl esters have performance characteristics similar to those of petroleum diesel without the environmental detriment of sulfur emission.

¶4. In addition to a plentiful palm oil feedstock, the GOM's biofuel aspirations are abetted by a palm oil industry eager to begin biodiesel production, the interest of foreign investors, and also by the existence of the Malaysian Palm Oil Board (MPOB). Pioneering palm biodiesel development since 1985, this government agency continues to develop efficient practices and to create new palm diesel products such as low pour point palm biodiesel, a palm biodiesel that is able to flow at lower temperatures (between -210C and 00C). The MPOB is funded by the industry via a levy imposed on total crude palm oil production. Around US$23 million was collected in 2006.

¶5. The GOM is determined to further develop the palm oil industry by promoting the production and use of palm biodiesel. The recently-passed Biofuel Industry Act (BIA) will allow an orderly development of the biofuel industry. The most important clauses are Clause 4, which seeks to prescribe the type of biofuel and its percentage by volume to be blended in any fuel; and Clause 12, which

contains provisions relating to revocation or suspension of a biofuel plant license. Clause 12 allows the licensing authority to revoke or suspend any license if the licensee has ceased to carry on or operate any biofuel activity for which the license is issued.

¶6. The BIA is in line with MPOB's efforts to market a biofuel blend consisting of 95% petroleum diesel and 5% palm olein, referred to as Envo Diesel or B5. B5 can be used to power diesel engines in the transport sector and also as fuel in the industrial sector for activities such as firing boilers. (Note: this B5 biofuel differs from the European Union's B5 biodiesel blend, which contains 95% petroleum combined with 5% methyl ester.) The GOM is currently running trials with the MPOB's B5 in government vehicles and private industrial entities with the intent of making it compulsory for diesel-consuming passenger vehicles, the transportation sector, and industries to use B5 in the near future. It is estimated that 500,000 metric tons of palm olein will be required annually to fulfill the B5 mandate. This figure constitutes only 3 percent of the palm oil produced in Malaysia in 2006.

Domestic Biofuel Use

¶7. In preparation for the B5 standard's implementation, the GOM initially intended to establish B5 fuel pumps and to increase public awareness of the new biofuel blend. The GOM was also to encourage engine and auto manufacturers to extend their warranties to cover the use of B5. The Minister of Plantation Industries and Commodities has stated that B5 will initially be sold at a price equal to the retail price of petroleum diesel, which is currently subsidized at a rate determined by the GOM. With the current high prices of feedstock, B5 Envo diesel is unlikely to be commercially launched in the near future. Sources indicate that the GOM will only mandate B5 use if palm oil prices decline to lower levels.

¶8. In Malaysia, biodiesel would have to compete with some of the lowest fuel prices in its region. The GOM sets retail fuel prices below the market price and compensates retailers through subsidies. Increasing crude oil prices have put upward pressure on this subsidy, forcing the GOM to incrementally increase retail petroleum prices. In February 2006, protests ensued from a US$0.08 per liter increase in both diesel and petroleum retail prices, and fuel prices have not increased again since then. There is some speculation that the government will raise fuel prices in early 2008.

¶9. Fuel subsidies are paid for through contributions from Petronas, Malaysia's national petroleum corporation. Despite the fact that Petronas only accounts for about 30 percent of the retail petroleum market in Malaysia, its contributions are adequate to fully fund the fuel subsidies in the entire market.

¶10. The GOM has eliminated the sales tax on retail petroleum products to alleviate price pressure and the incidence of the sales tax borne by the retail customer. The sales tax on diesel of US$0.05 per liter was eliminated in October 1999. The sales tax on gasoline of US$0.16 per liter was eliminated in June 2004.

Biofuel Exports

¶11. In addition to B5 biofuel produced for domestic use, the GOM is also greatly encouraging the production of methyl ester, primarily for export. New energy standards, such as those in the European Union, are making the export of methyl ester increasingly attractive to palm oil companies.

Incentive Programs

¶12. The GOM is supporting the construction of biodiesel plants through tax incentives. Because biodiesel is one of the products that is encouraged under the Promotion of Investments Act of 1986, biodiesel projects are eligible for Pioneer Status or Investment Tax Allowance (ITA). A company with Pioneer Status is granted tax

exemption on at least 70 percent of the income derived from biodiesel production for 5 years, with more revenue being eligible under certain provisions. ITA, an alternative incentive that the companies can choose, is an allowance schedule that caters to high capital investment projects with a long gestation period. Under ITA, companies are granted an allowance of 60 percent in respect of qualifying capital expenditure incurred within 5 years of the date of the first capital expenditure. This allowance can be used to exempt up to 70 percent of the statutory income derived from biodiesel production in the assessment year. Any unutilized allowance can be carried over to following years.

¶13. Under both the Pioneer Status and ITA incentive schedules, the tax allowance increases under certain criteria such as the location of the project in a promoted area. In order to further encourage the domestic palm oil processing industry, the GOM taxes exports of crude palm oil but does not levy export duties on processed palm oil or biodiesel.

Biofuel Production

¶14. Ethanol: There are no ethanol production plants currently operating in Malaysia. The advent of a domestic ethanol industry is highly unlikely as an appropriate ethanol feedstock is not abundantly available in Malaysia. Also, ethanol consumption is unlikely as retail gasoline prices are subsidized.

¶15. Biodiesel: Experts say that the production of biodiesel, including oil palm-based biodiesel, did not become a viable fuel option until crude oil prices surpassed the US$50 a barrel mark last year. In a November 2005 research report, Deutsche Bank concluded that as long as crude prices stay above this US$50 mark biodiesel makes financial sense within the European Union. At a PLPO price of US$730 per metric ton, the cost of palm biodiesel production is estimated to be about US$0.77 per liter.

¶16. Seven biodiesel plants are in operation in Malaysia with total capacity of 370,000 tons. With the current high prices for feedstock, post estimates the actual biodiesel output for all of 2007 should be around 280,000 tons. Post expects another six plants with a combined capacity of about 700,000 MT to be completed by ¶2008. The companies that are making profits are those that had secured crude palm oil at lower prices as long as six months ago. Some companies are also changing their product mix, such as increasing the production of Vitamin E (a derivative from Crude Palm Oil) while others are looking to sell glycerin (a by-product) at

higher prices as its output is anticipated to increase slower in tandem with an expected smaller growth in biodiesel production.

¶17. Biodiesel Projects Approved by the Malaysian Industrial Development Authority (as of October 2006)

Company; Location' Foreign Participation

1) MPOB Carotino Sdn Bhd; Pasir Gudang, Johor; 25% Singapore

2) Biodiesel Technology Sdn. Bhd.; Kuantan, Pahang; 20% - Australia

3) Global Bioenergy Resources Sdn. Bhd.; Nialai, Negeri Sembilan; No foreign participation

4) InteBio Tech Corporation S.B.; Sitiawan, Perak; 100% - Australia

5) Vance Bioenergy Sdn. Bhd.; Pasir Gudang, Johor; 90% - Indonesia, 10% - Singapore

6) Pgeo Edible Oils Sdn. Bhd.; Pasir Gudang, Johor; 3.9% - Others

7) Empee Industries Berhad; Kuantan, Pahang; 100% - India

8) SPC Biodiesel Sdn. Bhd.; Lahad Datu, Sabah; 15% - Australia

9) Kulim (M) Berhad; Pasir Gudang, Johor; 6.9% - Others

10) Success Nexus Sdn. Bhd.; Sitiawan, Perak; 30% - USA, 10% - Italy, 1% - Canada

11) Ganz Biofuels Sdn. Bhd.; Air Keroh, Melaka; No foreign participation

12) Zoop Sdn. Bhd.; Pulau Indah, Selangor; 10% - Japan

13) Sarawak Plantation Biodiesel Sdn. Bhd.; Miri, Sarawak; No foreign participation

14) Genting Biofuel Sdn. Bhd.; Pasir Gudang, Johor; 50% - Italy

15) Survival Access Sdn. Bhd.; Manjung, Perak; 6.3% - Others

16) Mission Biofuel Sdn. Bhd.; Kuantan, Pahang; 100% - Australia

17) Zecon Plantation Sdn. Bhd.; Pasir Gudang, Johor; no foreign participation

18) AM Biofuel Sdn. Bhd.; Pasir Gudang, Johor; no foreign participation

19) IJM Plantation Sdn. Bhd.; Sandakan, Sabah; 40% - USA

The above table shows the biodiesel projects currently approved by the Malaysian Industrial Development Authority (MIDA). When all these plants are operational, it is estimated that Malaysia will be able to produce more than 1 million metric tons of biodiesel annually.

¶18. The MPOB has worked with the Ministry of Plantation Industries & Commodities as well as Malaysian plantation companies to establish oil palm plantations overseas in Latin America and West Africa. This will further increase the supply of palm oil for Malaysian palm biodiesel companies.

Import Regimes for Biofuels

¶19. Malaysia does not levy import tariffs on biofuels. There is no import tariff on crude palm oil, but there is a 5 percent duty levied on processed palm oil. There are no duties on two common biofuel feedstocks: rapeseed oil and sunflower oil. However there is a 5 percent tariff on soybean oil and its fractions.

¶20. Key Malaysian Contact on Research and Development of Bio-Fuel:

Dato' Dr. Yuen May CHOO
Malaysian Palm Oil Board
6, Persiaran Institusi
Bandar Baru Bangi
43000 Kajang
Selangor
P.O. Box 10620
50720 Kuala Lumpur

Tel: 603-8925 9155/8925 9775
Fax: 603-8925 9446
Homepage: http://mpob.gov.my
E-mail: choo@mpob.gov.my

¶21. Embassy Contact:

Raymond Hoh
Foreign Agriculture Service
U.S. Department of Agriculture
Tel: (603) 2168-5182
Fax: (603) 2168-5023
Email: Raymond.Hoh@usda.gov

KEITH